

FISCAL NOTE

Bill #: HB0452 **Title:** Tax credit for developmentally disabled funding
Primary Sponsor: Raser, H **Status:** Third Reading, As Amended

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
Expenditures:		
General Fund	\$10,948	\$0
State Special	\$180,000	\$279,600
 Revenue:		
General Fund	\$139,800	\$25,200
State Special	\$1,066,000	\$1,016,000
 Net Impact on General Fund Balance:	 \$128,852	 \$25,200

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|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Significant Long-Term Impacts
<input checked="" type="checkbox"/> Needs to be included in HB 2 |
|---|--|

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. This bill provides for a developmental disability adult services account in the state special revenue fund. Taxpayers may make donations to the account to provide services to individuals with developmental disabilities. A portion of the money in the account *must* be used by the Department of Public Health and Human Services to obtain federal matching funds for expenditures on programs for the developmentally disabled. This act is effective on passage and approval, applies retroactively to tax years beginning after December 31, 2002, and terminates January 1, 2006. Hence, the bill applies to tax years 2003, 2004, and 2005; and would impact revenues in fiscal years 2004, 2005, and 2006.
2. Individuals, corporations, partnerships, and small business corporations are allowed a tax credit against either individual income or corporation license taxes equal to 30% of the donation, up to a maximum credit of \$10,000. The credit cannot exceed the taxpayer's tax liability; may not be carried forward or backwards; and must be applied in the year in which the donation is made.
3. The bill also provides that 30% of the money in the account for which a tax credit *will be claimed* must be transferred to the general fund for reimbursement of tax credit. This transfer will be done by the Department of Health and Human Services as donations are received in the account.
4. The act is effective on passage and approval and no donations will be made before July 1, 2003. The total amount of donations made during the course of any tax year are uniformly distributed throughout the tax

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year. This will result in no impact to the general fund over time; however, there will be an increase in general fund revenue in fiscal years 2004 and 2005 due to the timing of when the first credits are taken and when the general fund is reimbursed for these credits; and a decrease in general fund revenue in fiscal year 2006. For example, taxpayers will make donations to the account throughout FY04, with 30% of these amounts being deposited in the state general fund as they are made. However, only the portion of credits associated with donations made in tax year 2003 will be taken as a credit in fiscal year 2004.

5. The Department of Revenue does not have information allowing a precise estimate of the impact of this proposal. To obtain an approximate estimate the Department examined the history of a similar type of credit, the college contribution credit. The college contribution credit differs from the credit proposed in this bill in that it has always been equal to 10% of the donation made up to a maximum credit of \$500. For the purposes of this fiscal note, it is assumed that a similar number of taxpayers will use the credit provided for in this bill as used the college contribution credit, but that the average credit taken would be 4 times the average credit taken for the college contribution credit.
6. Based on the above assumptions, the following table shows the impact of this bill over the period fiscal 2004 through fiscal 2006.

Impact of HB452 by Calendar and Fiscal Year					
Calendar Quarter	Contributions Made	Associated Credit Transferred to General Fund (30%)	Tax Credit Claimed on Returns	Fiscal Year	Net Impact
2003:3	300,000	90,000		2004	139,800
2003:4	300,000	90,000			
2004:1	233,000	69,900			
2004:2	233,000	69,900	(180,000)		
2004:3	233,000	69,900			
2004:4	233,000	69,900		2005	25,200
2005:1	275,000	82,500			
2005:2	275,000	82,500	(279,600)		
2005:3	275,000	82,500			
2005:4	275,000	82,500			
2006:1	0	0		2006	(165,000)
2006:2	0	0	(330,000)		
2006:3	0	0			
2006:4	0	0			
Total Impact	2,632,000	789,600	(789,600)		0

Taxpayers will make donations of \$600,000 in tax year 2003, with \$180,000 (30%) of this amount being transferred to the state general fund. In the first half of tax year 2004, taxpayers will make donations of \$466,000 with \$139,800 (30%) of this amount also transferred to the general fund, for total transfers to the general fund of \$319,800 in FY04. In the spring of 2004, taxpayers will claim the \$180,000 of credits associated with tax year 2003 on income tax forms, reducing general fund revenue by the same amount. The net impact in FY04 would be the difference between 30% of total donations made in FY04 and transferred to the general fund (\$319,800) and the amount of credit claimed on returns filed in FY04 (\$180,000), or \$139,800.

During FY05, taxpayers will make total donations of \$1,016,000 with 30% of this amount, or \$304,800

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transferred to the general fund. Also in FY05, taxpayers will claim tax credits equal to 30% of the total amount of donations made in tax year 2004 (\$932,000), or \$279,600. The net effect on the general fund will be \$25,200 (\$304,800 - \$279,600 = \$25,200).

During FY06, taxpayers will make qualifying donations of just \$550,000 as donations after December 31, 2005 will not apply to the credit based on the termination date in the bill. 30%, or \$165,000, of these donations will be deposited in the state general fund. Also in fiscal year 2006, taxpayers will claim tax credits equal to 30% of the total amount of donations made in tax year 2005 (\$1,100,000), or \$330,000. The net effect on the general fund will be \$(165,000) [\$165,000 - \$330,000 = \$(165,000)].

Over the period in which the tax credit is in effect, taxpayers will make total donations of \$2,632,000; a total of 30% of this amount, or \$789,600 will be transferred directly to the state general fund, and taxpayers will take credits totaling \$789,600 for a net impact of zero on the general fund during the period in which this credit is in effect.

7. Administrative costs would increase by \$10,984 in fiscal 2004 for programming changes for the two new tax credits (individual and corporate) provided for in this bill.

Department of Public Health and Human Services

8. It is assumed that the account would be self-supporting and the costs associated with administering the account would be taken from account proceeds.
9. For services to be matched under the Developmental Disabilities Home and Community Based waiver, the individuals must be Medicaid eligible. The match rate would be at the Federal Medical Assistance Participation (FMAP) rate. This rate is assumed to be .2712 (FY2004) and .2757 (FY2005) for state funds, and .7288 (FY2004) and .7243 (FY2005) for federal funds. If all available funds were eligible for matching \$2,380,962 in FY04 and \$1,934,019 in FY05 in federal fund would be made available.
10. Activities funded by the account would include one-time services such as special accommodations, wheelchair ramps or specialized equipment needs.

FISCAL IMPACT:

	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<u>Expenditures:</u>		
Contracted/Personal Services	\$10,948	\$0
Transfers	\$180,000	\$279,600
<u>Funding of Expenditures:</u>		
General Fund (01)	\$10,948	\$0
State Special (02)		
Developmental Disability Services Account	\$180,000	\$279,600
<u>Revenues:</u>		
General Fund (01)	\$139,800	\$25,200
State Special (02)		
Developmental Disability Services Account	\$1,066,000	\$1,016,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$128,852	\$25,200
State Special (02)		
Developmental Disability Services Account	\$886,000	\$736,400

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

No impact.

LONG-RANGE IMPACTS:

HB452 terminates January 1, 2006.

TECHNICAL NOTES:

1. In order for funds to be matched with Medicaid funding, the donations cannot be designated for a specific individual.
2. Expenditures from the Developmental Disability Service account and federal matching fund would have to be appropriated.